

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 ISO-00 AGR-05 IO-13 EA-07

NEA-10 AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02

DODE-00 PA-01 PRS-01 ITC-01 /137 W

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P R 232100Z AUG 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 7478

INFO AMEMBASSY BOGOTA

AMEMBASSY LONDON

AMEMBASSY SAN SALVADOR

AMEMBASSY TANANARIVE

AMEMBASSY ABIDJAN

USMISSION EC BRUSSELS

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L BRASILIA 7385

E. O. 11652: GDS

TAGS: ETRD, EPAP, BR

SUBJECT: BRAZIL COFFEE PURCHASES

REFS: A. BRASILIA 7289, (B) BRASILIA 7176, (C) STATE 189085,
(D) STATE 188565

1. SUMMARY. FONMIN OFFICIAL EXPRESSED HOPE THAT NO POLITICAL
TROUBLE BETWEEN BRAZIL AND U.S. WILL ARISE BECAUSE OF
BRAZILIAN COFFEE PURCHASES. HE ACKNOWLEDGED THAT BRAZIL'S
LARGE EXPORTS IN JUNE, ALONG WITH MARKET MANIPULATION BY
SPECULATORS, HELPED CAUSE DECLINING PRICES, WHICH BRAZILIAN
PURCHASING HAS SOUGHT TO COUNTERACT. EMBASSY STILL BELIEVES
ANOTHER REPRESENTATION TO THE GOB, PERHAPS THROUGH AMB.

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PINHEIRO, WOULD BE USEFUL. END SUMMARY.

2. AT LUCH ON AUGUST 19, FONMIN'S COFFEE AFFAIRS ACTION OFFICER, FIRST SECRETARY JORIO DAUSTER, DEFENDED TO EMBOFF BRAZIL'S PURCHASING BEHAVIOR. THE ONLY POINTS HE MADE THAT WE HAVE NOT HEARD BEFORE ARE:

--(A) BRAZIL'S LARGE EXPORTS IN JUNE (OVER 2 MILLION BAGS) MIGHT HAVE HELPED CAUSE THE JULY DECLINE IN WORLD COFFEE PRICE QUOTATIONS, ALTHOUGH MARKET SPECULATION WAS "A" OR "THE" PRIMARY INFLUENCE; THUS BRAZIL'S PURCHASES ARE DESIGNED PARTLY TO COUNTER A PRICE TREND BRAZIL MIGHT HAVE HELPED CREATE;

--(B) THE EARLIER, HIGHER PRICES WERE "NORMAL" PRICES GIVEN THE PRESENT SUPPLY SITUATION, IN THE SENSE THAT THE PRICES WERE NOT SO HIGH THAT THEY WOULD CAUSE A SHARP INCREASE IN INVESTMENT IN COFFEE PRODUCTION ELSEWHERE; BRAZIL HAS SEEN NO EVIDENCE OF THIS, AND DOUBTS THAT OTHER PRODUCERS HAVE THE RESOURCES GREATLY TO INCREASE INVESTMENTS;

--(C) THE BALANCE-OF-PAYMENTS SITUATION MAKES IT VITALLY IMPORTANT THAT BRAZIL MAXIMIZE ITS FOREIGN EXCHANGE EARNINGS;

--(D) ONE OF THE CONTINGENCIES THE GOB IS STUDYING IS AN EXPORT LIMITATION OF 800,000 BAGS PER MONTH; THE GOB REALIZES THIS "COULD CAUSE PROBLEMS."

3. EMBOFF AGREED THAT BRAZIL'S COFFEE PURCHASING ACTIVITIES SEEMED DESIGNED NOT ONLY TO SUPPLY SOLUBLE INDUSTRY, BUT ALSO TO MAINTAIN PRICES. BUT HE OBSERVED THAT IF 75/76 PRODUCTION IN BRAZIL REALLY WERE TO END UP AT LEVELS DAUSTER EARLIER HAD SUGGESTED TO EMBOFF (REF B), THIS INFLUENCE BY ITSELF WOULD HELP KEEP WORLD PRICES HIGH. EMBOFF ADVISED THAT ANY RESTRICTIVE EXPORT LIMITATIONS IMPOSED IN TODAY'S MARKET COULD HAVE REPERCUSSIONS IN THE U.S. DAUSTER REPLIED THAT, GIVEN LOW BRAZILIAN STOCKS, A LIMITATION MIGHT BE NEEDED TO PREVENT THE POSSIBILITY THAT BRAZIL COULD EXHAUST ITS STOCKS BEFORE NORMAL PRODUCTION LEVELS RESUME. DAUSTER EXPRESSED HIS HOPE THAT THE ISSUE OF BRAZILIAN PURCHASING WOULD NOT BECOME A POLITICAL

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PROBLEM BETWEEN THE U.S. AND BRAZIL.

4. COMMENT. DAUSTER'S DEFENSE OF BRAZIL'S PURCHASING ACTIVITIES MIGHT REFLECT A GOB DECISION TO BROADEN ITS DEFENSE TO INCLUDE NOT ONLY SUPPLY OF THE SOLUBLE INDUSTRY, BUT ALSO THE REASONS GIVEN IN PARA. 2. THE GOB MIGHT WELL BELIEVE THIS BROADENED DEFENSE IS MORE CREDIBLE. DESPITE THIS POSSIBLE TACTICAL RETREAT, GOB

OFFICIALS SEEM TO US NO LESS CONFIDENT OF THE DEFENSIBILITY OF THEIR POSITION, AND NOT PERCEPTIBLY MORE WORRIED ABOUT POSSIBLE REACTIONS BY CONSUMING COUNTRIES. WITH RESPECT TO POSSIBLE FURTHER BILATERAL REPRESENTATIONS TO THE GOB, IT OCCURS TO THE EMBASSY THAT THE DEPARTMENT MAY WISH TO MAKE ANY SUCH REPRESENTATIONS TO AMBASSADOR PINHEIRO IN WASHINGTON, ESPECIALLY SINCE HE ALREADY HAS ESTABLISHED CONTACT WITH DEPUTY ASSISTANT SECRETARY BOSWORTH ON THIS SUBJECT, AND SINCE PINHEIRO MIGHT BELIEVE HIS CREDIBILITY IS ON THE LINE (GIVEN DEVELOPMENTS FOLLOWING HIS JULY 28 DEMARCHE).

5. IN VIEW OF DAUSTER'S COMMENTS, EMBASSY SUGGESTS THAT IT WOULD BE HELPFUL IF ANY REPRESENTATION COULD INCLUDE ANY EVIDENCE THAT OTHER PRODUCERS, IN RESPONSE TO HIGH PRICES, ARE SIGNIFICANTLY INCREASING INVESTMENT IN COFFEE PRODUCTION (AS WELL AS INCLUDING ANY NEW EVIDENCE THAT HIGH COFFEE PRICES ARE FORCING CHANGES IN BEVERAGE CONSUMPTION PATTERNS TO THE DETRIMENT OF COFFEE). THE DEPARTMENT CAN BEST JUDGE WHETHER THE REPRESENTATION MIGHT ALSO ALLUDE TO THE POSSIBLE REPERCUSSIONS IN THE U.S. OF ANY RESTRICTIVE EXPORT LIMITATIONS, ESPECIALLY IN A PERIOD OF HIGH PRICES, THAT WOULD CONTRAVENE THE SPIRIT OR LETTER OF THE ICA.
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